Sales Incentives Give a little, Get a lot

"we aren't introducing any new products this year," or "production can't keep pace with demand."

A few are simply disillusioned. "Special incentives have outlived their usefulness," says the marketing director of a $101–$500 million industrial company, who is halving his budget. The district manager of a $101–$500 million consumer-goods company adds, "There's been a lack of support for prizes by winners in the past."

Not all are cutting back by choice. The marketing manager of a $26–$50 million distribution company says, "Our incentives are based on cooperative programs with our suppliers. There's been a decrease in the number offered."

The survey turned up surprisingly few negative comments about the effectiveness of incentive programs, though,

Highlights from S&MM's survey of 1980 sales incentive practices

Incentive users and their plans for 1980

(Base: 168 replies)*

B

1. Do you plan to increase or decrease the number of merchandise, travel, or cash incentive programs you offer this year compared with the number offered last year?

Increase	47%
Stay the same	45
Decrease	7

2. How does your 1980 budget for special incentive programs compare with the 1979 budget?

Total increases	61%
Up 9% or less	17
Up 10%–19%	26
Up 20% or more	18
Stays the same	30
Decreases	7

3. To whom will you offer your special incentive programs?

Own field salespeople	80%
Field sales managers	36
Reps, brokers, or other outside agents	24
Own inside salespeople	15
Distributor salespeople	15
Other	5

4. What awards will you give?

Merchandise (including catalogue programs)	53%
Travel	42
Cash	62
Noncash only	38
Cash only	30
Cash plus noncash	32

5. How do you evaluate the effectiveness of your special incentive programs?

Measure unit sales growth	61%
Measure participation	35
Poll salespeople for their reactions	25
Measure change in market share	19
Do not formally evaluate	15

6. Does your company or division have a formal recognition program for top salespeople?

Yes	65%
No	33

7. Your line of business?

Industrial	46%
Consumer goods	42
Services	13
Distribution	7

8. Your annual sales?

$10 million or less	17%
$11–$25 million	18
$26–$50 million	17
$51–$100 million	13
$101–$500 million	22
$501 million or over	10

*Percentages may total more or less than 100 because of multiple answers and no answers.

Nonusers and their future incentive plans

(Base: 77 replies)*

C

1. Why won't you use merchandise, travel, or special cash incentives this year?

Against company policy	35%
Too costly	14
Tried them and they didn't accomplish our objectives	13
We feel they are unfair	6
Other**	34

2. Has your company or division used any merchandise, travel, or special cash incentives within the past three years?

Yes	26%
No	39

3. Do you plan to offer such incentives next year?

Yes	17%
No	44

4. Does your company or division have a formal recognition program for top salespeople?

Yes	26%
No	73

5. Your line of business?

Industrial	75%
Consumer goods	21
Services	6
Distribution	3

6. Your annual sales?

$10 million or less	36%
$11–$25 million	25
$26–$50 million	12
$51–$100 million	16
$101–$500 million	5
$501 million or over	4

*Percentages may total more or less than 100 because of multiple answers and no answers.

**Prefer to put the dollars into incentive compensation; too difficult to administer; effects too short-lived; use recognition.

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even among nonusers. Only 13% of those who aren't running incentive programs this year (or about half of those who say they've used incentives within the past three years) say that such programs "didn't accomplish our objectives" (Table C, page 58). The chief reason they give for not using merchandise, travel, or cash incentives is that such programs are "against company policy."

Says one, "Our policy is to put the money into high commission dollars." Another complains, "Top management is afraid to spend a little more to get a little more in sales." But at least one worries that incentives might be too effective. "We don't want our salesmen pushing customers," he asserts.

Other reasons for not using incentives include short-lived results, "no need," problems with administering them fairly or with evaluating results, a biennial program schedule, and (from a marketing vice president) "Our sales manager doesn't like them."

Indeed, personal preference appears to play a large role in incentive-program decision-making. For example, past personal experience probably influences whether a company uses sales incentives. The survey found that 74% of current incentive users participated in sales incentive programs when they were salespeople; 94% of them enjoyed participating. In

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contrast, only 42% of nonusers ever participated in a program themselves, with only 78% of them enjoying such programs.

Personal preferences are even more apparent when it comes to the selection of awards. The loyal followers of merchandise, of travel, and of cash are convinced that their personal preference is by far "the best" award for all incentive programs. A strong minority (45%), however, now offers its salespeople a mix of prizes (though not necessarily in the same program). Ten percent use all three motivators: merchandise, travel, and cash. Thirteen percent offer merchandise and travel. Fourteen percent use merchandise and cash, and eight percent use travel and cash.

The relatively low percentage of travel-and-cash users probably reflects two things: (1) travel programs, because of their higher average cost, tend to run longer than merchandise programs, leaving less time—and money—for short-term cash programs (below, left) and (2) interaction among winners is an important benefit of group-travel programs, which still account for the bulk of incentive-travel awards. Thus relatively few companies offer cash in lieu of a trip, whereas a greater number give it in lieu of specific merchandise items. Among those who use merchandise, 56% offer specific items, while 44% allow winners to select their awards from a catalogue.

One highly touted claim of incentive suppliers is that merchandise and travel are more memorable awards than cash. The survey results seem to support that contention. After asking whether, as a salesperson, the executive had ever participated in a sales incentive program (64% had), our survey asked him to "describe the program that, looking back, you consider most memorable." Eighty-six did so with the following results: 41% mentioned travel programs, 22% mentioned merchandise, and 19% mentioned cash. The other 18% were split between recognition programs (15%) and such special awards as company stock and better cars (3%). The following are some of their comments:

- "It was the first program I

Incentives users' tips for shaping a fair program

1. Set individual quotas.
2. Establish different quotas for different lines.
3. Base programs on two or more factors, not just on dollars or on units.
4. Analyze your markets and your sales programs before you set your sales-incentive goals and quotas.
5. Base goals on previous actual performance.
6. Set realistic goals.
7. Have measurable objectives.
8. Strive for maximum participation.
9. Make rules that are easy to understand.
10. Spell out requirements carefully before the program begins.
11. Report standings to participants on a regular basis.
12. Give field sales managers the flexibility to adjust for unusual circumstances.
13. Don't use lottery-type programs.
14. Always have more than one winner.
15. Evaluate your results, including salespeoples' and field sales managers' opinions of the program.

Where the dollars go

Incentive spending continues to climb* . . .

	1980**	1979	1978	1977	1976
Merchandise (Mil.)	$1,571.6	$1,384.7	$1,213.6	$1,033.9	$899.0
Travel (Mil.)	419.8	386.9	361.3	291.4	254.7
Total (Mil.)	1,991.4	1,771.6	1,574.9	1,325.3	1,153.7

. . . and so does the cost of awards.

	Average unit cost of merchandise and travel awards				
	1980	1979	1978	1977	1976
Merchandise	NA	$ 277	$237	$ 150	$196
Travel	NA	1,208	931	1,071	896

*Excludes program promotion costs and the cost of cash and recognition awards.
**Estimate. NA–Not available.
Source: *Incentive Marketing*, January 1980; *Incentive Marketing Facts*, December, 1979, 1978, 1977.

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was ever in. I accumulated points for sales I made and cashed in my points for a camera. I had been selling one month, and I thought it was great."

• "There was a football theme, and we accumulated points based on the highest percentage over quota on units and/or dollars. The prizes were trips to bowl games or the cash equivalent."

• "We once had a three-month program on a certain product line for which S&H Green Stamps were awarded weekly. I won enough to cover my lawn with them. My wife was in heaven spending them."

• "A five-month sales contest that sent the winner and his wife on a 12-day trip to London as part of a company-sponsored golf event."

• "Travel as a very young couple; merchandise as our home was maturing; and recognition and more sophisticated travel as maturity took over."

• "The first one, which offered merchandise prizes when we were struggling financially as a young family."

Not all the executives had happy memories. One, for example, won gift certificates for shoes. "I won about 20 pairs," he says. "However, I would have preferred money." Another writes, "I won a trip to the Greenbriar for a top salesman award. *But* [emphasis his], it could have been really great if it had been with the wife and not in the middle of winter."

Also, perceived inequities rankle long after an event is over. One executive's "most memorable" is "the one I lost to a guy who won it with a bunch of windfall accounts. Even he, in his acceptance speech admitted he didn't deserve it."

Such negative memories are a reminder of the need for careful planning and evaluation of incentive programs, particularly regarding fairness. The survey responses suggest that companies are strengthening their planning and evaluation activities. But there is room for improvement. For example, a surprising 15% of sales and marketing executives still do not formally evaluate the effectiveness of incentive programs. Considering the monetary costs, the management time involved in planning and executing programs, and the potential they have for demoralizing

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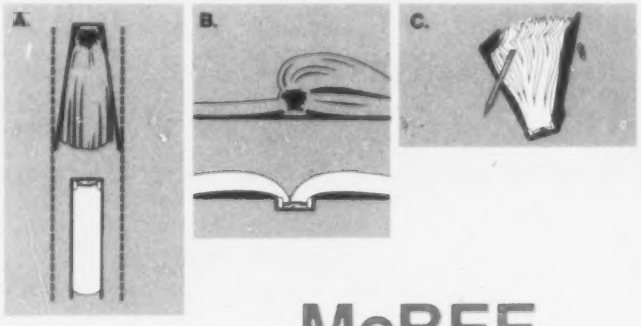

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salespeople if they are perceived to be inequitable, those managers may be missing a bet for making their programs more effective.

Sales and marketing executives who do evaluate their sales incentives generally measure unit sales growth during the program or sales force participation (Table B, page 58). Polling the salespeople's reactions and measuring changes in market share are also popular yardsticks of effectiveness.

S&MM asked executives what steps they take to make their programs fair. A compendium of their suggestions appears in the tips box on page 62. The following were mentioned mostly frequently:

- Set individual, realistic quotas.
- Spell out the requirements up front.
- Let participants know regularly where they stand.

Even if you do all those things, don't be surprised if someone feels cheated. Says one executive, "We haven't yet found a good way to make them fair." Adds another, "We set incentive quotas at a very safe percentage over forecast. They're still not fair." A third comments, "We assume that no program is fair to all. But we try to make the ground rules fair and make each individual's added efforts pay off."

Setting the ground rules to encourage broad participation is a strategy many executives say they use. "Never offer a contest where only one person can win," a marketing manager advises. "Instead, offer one in which everyone *could* win."

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tors is that they offer salespeople recognition for their achievement. In fact, many sales and marketing executives believe that the recognition is even more important than the award. So it's natural that a number of them capitalize on the sales force's hunger for notice by sponsoring formal recognition programs for top achievers.

Our survey finds that 52% of sales and marketing executives (including 65% of this year's incentive users and 25% of the nonusers) have such programs (Table A, page 57). They range in format from presentations of plaques and cups at the annual sales meeting to membership in president's clubs with such tokens of achievement as travel awards, special blazers, trophies, special business cards, and diamond rings.

A few give their elite an even more special award. Top achievers form a salesmen's council, which meets with the company's top managers at specified times during the year.

But whatever the award—a meeting with the president, a $100 bill, a toaster, or a trip to Rome—the principle is the same: give a little to get a lot. And if your experience is like that of the majority of the sales and marketing executives who responded to S&MM's survey, you'll be glad you did.

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